STRATEGY RESEARCH PROJECT

THE FUTILITY OF ECONOMIC SANCTIONS AS AN INSTRUMENT OF NATIONAL POWER IN THE 21ST CENTURY

BY

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ABSTRACT

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Economic sanctions have been used for centuries as a tool of warfare, with some notable successes such as the demise of Apartheid in South Africa. Today however, their effectiveness is diminishing for a number of reasons. The purpose of this paper is to show that economic sanctions are no longer an effective instrument of national power. Many countries that are the targets of sanctions, such as Cuba and Iran, have been able to withstand sanctions imposed by the U.S., and indeed have started to grow at impressive rates in spite of them. Without the cooperation of the nations of the world whenever sanctions are contemplated, their effectiveness will be severely reduced. The advent of computers, speed of light communication networks, giant multi-national corporations, and the proliferation of banking networks are combining to make modern nations impervious to economic attack. The future of economics as part of the four instruments of national power is in jeopardy as the world moves forward from the industrial age into the information age.

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PURPOSE

The U.S. use of economic sanctions as the instrument of choice from among the four options, (political, economic, military and informational), has always been an alluring one. Judging by the number of times in U.S. history some form of economic sanctions have been imposed on other sovereign nations, policy makers apparently believe that the use of this economic instrument will produce the desired result, or at least, aid in achieving the desired result. Whether this belief stems from the appearance that this option is the least costly in terms of blood and treasure, or because these policy makers genuinely believe the use of economic sanctions alone will achieve the desired results is unclear. What is clear from the vast quantities of literature available on the subject, is that the imposition of economic sanctions against another sovereign nation rarely produces the desired results. There are instances in history where they have worked satisfactorily, but they are generally the exception rather than the rule.

Using the imposition of U.S. unilateral economic sanctions against Iran and Cuba as case studies, and discussing other instances of sanctions, this paper will examine why these sanctions are not working, why they will not produce the desired change in Iran's and Cuba's behavior, and look at how economic sanctions are rapidly becoming obsolete as a subset of the

available tools within the economic instrument of national power. Taking this concept one step further, this paper will look at how the concept of sanctions will evolve in the 21st century and link these two concepts as the world moves forward into the information age.

DEFINITIONS

Economic sanctions can and do take many forms, with no two instances of sanctions imposition are exactly alike. Economists differ on a single definition of what encompasses economic sanctions. For the purposes of this paper, the term economic sanctions will only include the types of actions that are intended to be coercive in nature. Using the analogy of the carrot and stick approach to the term, we will be discussing the stick approach, not the carrot.

Economic sticks can and so take many forms. R. Pape, writing for the <u>International Security Journal</u>, lays out a set of clear and concise definitions that will be adopted for the remainder of this paper. Mr. Pape points out that there are two categories of economic weapons, trade restrictions and financial restrictions. Economic weapons could include a unilateral or international freeze on the target country's assets located in banks in the U.S. or abroad, getting the International Monetary Fund to stop any on-going loan programs or calling any existing loans. Examples of trade restrictions would be a total or

partial ban of goods that could be imported from a country, attempts to ban exports from the target country, and also political attempts to convince other trading partners to cease trade with the target. Every country that is, or could be, a candidate for economic sanctions is vulnerable in one or more areas, finding the right pressure points is critical to achieving any long-term success. There are three main strategies in applying these weapons; economic sanctions, trade wars, and economic warfare.[1] He goes on and tries to clarify why sanctions are imposed:

> Although coercers may suspend trade either comprehensively or partially, economic sanctions characteristically aim to impose costs on the economy as a whole. Partial trade suspensions are generally adopted either as part of a calculated strategy to signal the potential of still worse pain to come if the target fails to comply, or as a second-best measure because more pressing domestic or international political constraints rule out comprehensive pressure.[2]

The above discussion clearly points out that the purpose of these economic sticks are to impose costs and signal intentions that there could be worse pain to follow. The desired end result is compliance by the targeted country to the will of the coercer, whether an individual country or an international body such as the United Nations. In some cases, the stick approach can transform to the carrot approach once the target shows they are starting to comply with the desires of the coercing entity.

Before getting to historical and modern uses of sanctions, it will be helpful to discuss the theory of sanctions further.

ECONOMIC SANCTIONS' THEORY

There are numerous articles that discuss the effectiveness of economic sanctions, or their lack thereof. T. Morgan in an article published in the International Studies Quarterly propose a model based on the, "spatial model of bargaining" to assess the effectiveness of sanctions.[3] Studies referenced in the article chronicle some of the 116 instances of economic sanctions imposed as an instrument of foreign policy since 1914 and this study finds that in 40 cases, economic sanctions were successful in achieving their objectives.[4] Following a dialogue as to the meaning of the word "successful", the authors of the article question the viability of the referenced study and state:

> ...we believe that the focus of the debate regarding the effectiveness of sanctions is on whether they can enable the sanctioner to achieve its goals of altering the behavior of the target. Furthermore, since many have advocated sanctions as an alternative to military force, a "successful" use of sanctions should enable the sanctioner to achieve its aims without a resort to arms.[5]

The authors of this article refer to earlier works that suggest that the imposition of economic sanctions is part and parcel of classical bargaining theory and that they are simply another

move away from the table, designed to influence the other party's interests and positions, that will eventually lead to a successful outcome from the sanctioner's viewpoint.

Other cases are referenced in the article, yet their success, or lack thereof, synthesize down to the question - What is successful? Depending on the researcher, and their interpretation of the goals to be achieved, success varies from one researcher to another.

R. Pape, an Assistant Government Professor at Dartmouth College offers three criteria to help define a standard definition of success in this area:

1. The target state conceded to a significant part of the coercer's demands

2. Economic sanctions were threatened or actually applied before the target changed its behavior

3. No more credible explanation exists for the target's change of behavior.[6]

Now that the theory of economic sanctions has been discussed, it will be useful to look at an abbreviated history of sanctions' use, some successful, some not.

MODERN HISTORY OF ECONOMIC SANCTIONS

Throughout the course of history sanctions have been used as an instrument of national power. An early form of sanctions involved the use of a total blockade of a town or a city when the opposing army would lay siege to the objective and totally

cutoff the opponent. The lack of food and water would eventually work and the people would either fight or surrender. The alternative was to die of thirst or starve to death. This tactic was generally effective but required patience and the proper circumstances. If the city had wells within the walls then food was the primary weapon and the siege would take longer. The optimum target was one that required the importation of food and water to feed the inhabitants of the city. When a city had water or large quantities of foodstuffs, a siege would not work or would take too long, and a more direct military approach was necessary to obtain the objective.

Today's method of siege warfare involves the use of economic sanctions against a target country and the effectiveness of these sanctions is also a function of the dependence of the target on trade with other countries. A country that was totally self-sufficient would be much less susceptible to the debilitating effects of economic sanctions. In the modern world, a totally self-sufficient country would be very hard, if not impossible, to find. Even the U.S. is not self-sufficient, even though it has the most robust economy in the world.

Early armies laying siege to a town or city generally did not have to worry about supplies getting to the target by neighbors or sympathetic towns. Complete encirclement of the objective was usually sufficient to ensure the total blockade of

aid to the town. Modern economic warfare is not so simple. There are almost no cases of economic sanctions being enforced with such completeness as the siege of ancient towns. Even during World War II, the blockade of Germany was not completely effective due to contiguous borders with countries they occupied, and the allies inability to close those borders. Borders with friendly neighbors, aircraft that are able to fly over blockaded ports, and the lack of means or will necessary to stop and examine every single ship, truck or car entering a country to look for sanctioned items, makes enforcement spotty at best, and the desired results that much harder to achieve.

A modern success story for sanctions is found in the recent end to Apartheid in South Africa, an apparent direct result of the economic sanctions imposed on that country. After political instruments of power were tried and fell short, economic sanctions were imposed and ultimately appeared to be successful. One reason they were apparently successful is that they were given time to work. The sanctions were imposed for years, and the political will of the sanctioners was strong enough to stay the course for the time required for the sanctions to bear fruit. T. Morgan is also careful to point out that they were successful only because all the trading partners of South Africa were united in their positions and they all enforced the sanctions imposed.[7]

A more recent example shows the difference in expectations of the success of economic sanctions and the eventual outcome. When the U.S. imposed oil importation sanctions against Haiti, the total dependence on the U.S. for this vital import should have quickly led the Haitians to bend to our will. G. Hufbauer, an international economics expert, points out that the Haitian geography and their total dependence on the U.S. for oil was the perfect setting for sanctions to work.[8] The ban was limited to oil imports and items such as food and medicine were exempted. The second order effect of the oil ban kept the food and medicine from getting distributed throughout the island, and food grown inside the country was not able to travel to the markets. The unintended effects produced starvation and sickness throughout the country. Media campaigns conducted by visiting doctors highlighted the effects of the oil embargo, and inflamed anti-American feelings by laying the blame for the starvation and sickness at the feet of the American government. Even with the country on the brink of starvation, the ruling junta was unmoved in its position and only the very real threat of an invasion by the U.S. military had any effect on the position and will of the rulers. In this instance the imposition of sanctions did not produce the change in position sought by the sanctioner and had disastrous second and third order effects on the non-targeted local population.

Another country where economic sanctions could be said to have some positive effect is in N. Korea. Sanctions were imposed after the armistice was signed. During the ensuing forty plus years, N. Korea has endured the UN sanctions, and survived, because they had help from the former Soviet Union and China. In other words, the sanctions were not complete, the border with China was still open for the transportation of goods and aid. Recent events have strengthened the effectiveness of the sanctions.

Internal economic and political problems within the former Soviet Union and China have forced them to focus their energies internally. As a consequence, they have both stopped trading with, or severely curtailed their aid to N. Korea. The weather has started to take a toll in N. Korea as well. In 1995 and 1996 floods have ravaged the countryside and brought this country to the brink of famine.[9] The inability of the N. Korean government to provide the basic necessities of its people has caused it to ask for help from the world community. It appears that the combination of sanctions that weakened the N. Korean economy over the years, and an unfavorable weather pattern has made the government willing to begin a dialogue with the rest of the world. In effect, the stick is giving way to the carrot. The much publicized nuclear reactor plan to aid N. Korea in developing a peaceful nuclear industry alternative to an alleged

nuclear weapons development program is a case in point. In this regard, economic warfare with a little help from the weather, appears to have changed the positions of the N. Koreans at the bargaining table.

An example of sanctions that do not appear to be working are the UN sanctions in-place against Iraq. The majority of the members of the UN support and enforce these sanctions, but a critical minority do not. It is common knowledge that the border with Jordan is still open, and in some cases, the only way in and out of the country of Iraq. A recent news story filed by the Associated Press from the USS Carney, patrolling off the coast of Bahrain, highlights the amount of oil smuggling that is attempted on a daily basis. If there was no market for smuggled oil, there would be no traffic in these relatively small amounts of oil.[10] Without total cooperation of contiguous countries, UN or unilaterally imposed sanctions, are not going to be as effective as they could be.

US SANCTIONS AGAINST IRAN

Writing in Foreign Affairs, Z. Brzezinski and B. Snowcroft discuss the U.S. policy of "Differentiated Containment" towards Iran and Iraq. The desired end state of this policy is a secure and stable Middle East.[11] One of the primary weapons in this containment plan is the use of economic weapons, sanctions and monetary measures to change their behavior. The premise of the

authors' is this dual containment policy neither will lead to success nor is sustainable in the long term.

Iran has been classified as a rogue state by U.S. authorities and a sponsor of terrorism. In the spring of 1995 President Clinton announced that he was, "instituting a complete economic embargo against Iran".[12] Although this move was applauded by certain powerful constituencies within the U.S., the embargo was implemented by executive order, had no teeth and was seen as a purely political move. Congress, led by conservative Republicans, crafted and passed the "Iran and Libya Sanctions Act" which was duly signed by the President. This embargo targets the oil producing capability of Iran and purports to punish any American company that does business with Iran, as well as threaten sanctions against any foreign firm that does more than $40 million worth of business with Iran in one year.[13] The bill also contains a menu of five options that the president can choose from should he wish to impose sanctions against a foreign company that violates the conditions in the law. These are:

1. Denial of Export-Import Bank financing

2. Denial of licenses for sensitive exports and a prohibition of imports into the U.S.

3. Prohibition against serving as a primary dealer in U.S. government bonds

4. Ban on loans by U.S. financial institutions in excess of $10 million per year

5. Denial of U.S. government procurement of the sanctioned firms goods and services

Small print in the bill allow the president to delay implementation for six months and/or waive all the provisions if that course of action is in the national interest.[14] To date, no sanctions have been imposed on any foreign company. In effect, although numerous companies have defied the U.S. law, there has been no economic penalties levied against any of those firms.

When the U.S. implemented these measures against Iran, we did not generate any support amongst our long standing allies in the region. Key non-Arab players in the region, France in particular, have criticized America for these policies and have refused to join in the imposition of these sanctions. As discussed in the theory section, without support and help from other nations, this policy is doomed to be ineffective.

The biggest loser so far has been American business. Conoco Oil had an impending billion dollar deal to develop two Iranian oil fields that was dropped at the insistence of the U.S. government; the project was given to Total Oil, a French company. U.S. government pleas to France have fallen on deaf ears, and the project is on-going. Similar events have occurred with some of our closest allies in the region. Recent

announcements of the completion of the natural gas pipeline between Turkmenistan and Iran highlight how independent of the U.S. Iran has become since the days of the Shah. This pipeline will supply a large part of Iran's energy needs, and further dilute any effectiveness the U.S. sanctions may have been having.[15] In this attempt to change the behavior of Iran, we seem to be going it alone, and not very successful in our efforts.

Dr. Thomas R. Stauffer, an international authority on oil and water in the region offers an opposing view on one particular issue. The southern oil fields in Iran are old and have been in use since the 1950s. At present they produce approximately 3 million barrels per day. Using available repressurization technology, they could be producing upwards of 6 million barrels per day. In order to increase production, Iran would need to buy large natural gas compressors and inject this gas into these older wells. All the best compressors are built in America or under license to American firms. These compressors are sanctioned items and have not been sold to Iran.[16] Although this potential revenue could be seen as an opportunity cost, since they were not achieving these increased production levels before the imposition of sanctions, the loss of this additional revenue is not adding to the effectiveness of the sanctions.

Imposing economic sanctions on another country is also costly to the sanctioner. In this case the direct cost to the U.S. can be measured. In one of his bi-annual reports to Congress, President Clinton states the cost from March 1995 to September 1995 was $875,000.[17] These costs were mostly salary for the bureaucrats that try and recognize when the law is being violated and documenting these transgressions. The indirect costs to American businesses in lost and future revenues is incalculable.

What effect on Iran and her economy have these sanctions caused, and are we any closer to changing Iran's position at the bargaining table? There is some evidence that these sanctions are having an effect in the overall level of performance of the Iranian economy. Various sanctions have been imposed on Iran since the early 1980s, yet they are still allegedly sponsoring terrorism and helping to destabilize the Middle East and specifically the peace process. In other words, Iranian behavior has not changed due to the imposition of sanctions.

J. Amuzegar, an international economic consultant, attempts to capture the level of economic performance and relate how these sanctions imposed by the U.S. have hindered their economic growth. In order to accurately gauge whether these sanctions are having any effect, global economic conditions during this period have to be factored in. For the years 1984 - 1988, Iran

was at war with Iraq. The vast majority of her economy was on a war footing and any effect the sanctions would have had are overshadowed by the war effort. At the same time, the price of oil collapsed on the world market resulting in a Gross Domestic Product (GDP) decline in Iran of approximately 2 percent per year. As a result, their economy was contracting, not expanding.[18] Since the end of the war with Iraq, economic growth plans were put in place by the leaders of Iran. The plan called for:

> ...orderly exchange rate unification, increased fiscal and monetary disciplines, trade and business deregulation, streamlining of the state bureauacry, and the establishment of money-losing public enterprises, attraction of foreign private investments, and establishing budgetary control over the semi-independent parastatal *bonyads* (foundations).[19]

The results, from Iran's point of view, fell short of their goals, but the measures taken did increase their GDP, although by not as much as they expected. During this period they made some mistakes, but recognized their errors and attempted not to repeat them. Oil exports, an implied target of the U.S. sanctions, were 90 percent of their projected levels.[20] More recently, the GDP has been growing at a respectable, and sustainable rate of about 3 percent, but inflation averaged 42.6 percent. J. Amuzegar offers this explanation and succinctly states his views on the sanctions effectiveness:

> While sanctions' advocates among Iran's hawkish critics in the U.S., and the inveterate monarchists in the Iranian exile community, may wish to relate these economic setbacks to the U.S. enhanced sanctions since June 1995, the evidence is not convincing. The relatively slow growth of the economy and the relatively high rate of inflation, in 1995-1996, are more easily traceable to the very tight import compression dictated by the debt-service obligations, and the settlement of the 1992-93 payment arrears. The latter two were clear by-products of earlier monetary imprudence, mishandling of foreign exchange reserves, and the speculative surge of imports ahead of officially announced government intention to devaluate the rial, and the inexcusable lack of central bank supervision.[21]

As with most economies of this type, hard empirical data on Iran is unavailable to scientifically study the effects, if any, of the sanctions imposed by the U.S., anecdotal evidence by visitors and banking officials point to a growing economy, the proliferation of modern communications equipment, (phones, faxes, computers), and improvements to the necessary infrastructure are being made. It appears that our "go it alone" attitude is having only a marginal effect on the economy of Iran, certainly not enough to change their position at any bargaining table or political negotiations we may attempt to engage them in. The lack of any of our allies joining in these sanctions has certainly reduced any effectiveness they might have had, and the provisions concerning imposing sanctions on companies that do business with Iran has certainly not endeared the U.S. to the rest of the world.

US SANCTIONS AGAINST CUBA

Taking a look closer to home, the case of the Helms-Burton Act that impose sanctions against Cuba, and some of her trading partners, highlights how ineffective sanctions can be without solidarity among the nations of the world, and the will to enforce the provisions of the bill that created the sanctions.

Cuba, as the only communist country in the western hemisphere, has been the target of numerous U.S. attempts to convince it to renounce communism and return to a capitalistic model. So far none of these attempts have worked. Economic sanctions have been imposed by the U.S., strengthened after the shoot-down of two private airplanes, and yet the Cuban economy has grown and the people are starting to prosper under a centrally controlled economy, that is slowly starting to incorporate some elements of capitalism. Can these changes for the better, from the Cuban viewpoint, be blamed or attributed to the effect of the U.S. sanctions? Or are they a result of ingenuity and perseverance on the part of the Cuban government and the people?

If sanctions by the U.S. were ever going to produce the desired effects, they should have worked at the end of the 1980s. With the collapse of the Soviet Union, Cuba lost her most reliable and biggest trading partner and benefactor. Oil imports were cut to less than 50 percent of previous totals,

imports of all other goods declined by 75 percent, the GDP fell 35 percent, and the budget deficit swelled to 33 percent of GDP.[22] Conditions like this for Cuba should have led to revolution on the part of the population. Yet they did not revolt. The centrally controlled economy was able to produce and import just enough foodstuffs and energy to keep the people minimally fed, clothed, and watered. In addition, jobs were still available, school and universities were still open, and medical care was still free to the entire population. How this was accomplished and subsequent improvements were made highlight how difficult it is, and will be, to change a sovereign nation's behavior and bargaining position through the use of economic sanctions.

Cuba was able to ride out the perceived "economic blockade" by recognizing that the basic necessities of the people had to be taken care of in order for the government to stay in power. Basic food necessities and gasoline became rationed items, but the rationing guaranteed that all citizens would received a basic subsistence, and citizens with additional means would still be able to purchase "luxury" items. As the blockade wore on, more and more items went on the rationing list until just about everything was rationed. It was not unlike economies during World War II when most items were rationed. In Cuba's case, the enemy was the blockade by the U.S.. Basic goods and

services necessary for subsistence continued to be priced in local currency, enforced by the central government. There was a black market that traded in U.S. dollars, but it was small and kept under control by the will of the people to ride out the blockade and persevere despite the centralized planning and control exerted by the government.

Recognizing the necessity for trade and foreign investment, Cuba slowly started to relax its foreign investment laws and started to attract joint ventures. J. Gordon reports:

> At last count there were over 240 joint ventures in Cuba, involving fifty-seven countries in forty areas of the economy. The foreign investment projects announced to date total some $5 billion...by the first half of 1996 the GDP was growing at 9.6 percent.[23]

With economic growth at that torrid pace, with expectations of more of the same to continue, it is no wonder that our sanctions are having little effect. The growth in Cuba is a direct result of foreign investment that the companies of the U.S. are missing out on, and our friends and allies are cashing in on. Lack of solidarity in the imposition of sanctions has diluted their effects to the point where they are an inconsequential irritant to the Cubans. As in the Iranian scenario, the provisions of the Helms-Burton Act that are supposed to punish foreign companies that profit from trading and investing in Cuba have been postponed by President Clinton every six months, for

reasons that appear more political in nature than economic. It is readily apparent that these sanctions imposed are having a minimal effect, if any at all. The real losers are the Cuban expatriates in the U.S. and American businessmen. If and when Cuba transforms itself after Castro, the businesses currently in Cuba will be so firmly entrenched that they will never give back any disputed land claims, and there will be little left of the economic expansion for U.S. businesses to participate in.

CRITERIA FOR SUCCESS

If most of the sanctions imposed by the U.S. so far have been mostly ineffective, what are the conditions necessary for them to be effective? Effective in this case is defined as achieving the stated objectives and goals, (i.e. changing the sanctioned country's position at the bargaining table).

K. R. Himes, a moral theologian at the Washington Theological Union, discusses the need to apply a moral litmus test to any proposed sanctions that are being contemplated, and seems to share similar views of the Pope on this topic.[24] He then goes on to propose some criteria that would seem to assess the moral legitimacy of economic sanctions, and likens these criteria to the concept of just war. The following list paraphrases these seven criteria:

1. Sanctions ought to be employed with good reason, since they can impose great hardship and suffering on innocent people.

2. Less harmful ways of resolving the problem ought to be employed first, and the imposition of sanctions should not be seen as the end of diplomatic negotiations, but as leverage in the negotiation process.

3. The goal of the sanctions should be clearly stated so that the targeted government and the sanctioners both know what must be done to have the sanctions lifted.

4. Sanctions should be selective and aimed primarily at those responsible for the crisis. Discrimination is needed in targeting.

5. A monitoring system to assess the effect of the sanctions should be instituted. Private groups may be better suited than opposing governments.

6. When sanctions are imposed because of human rights abuses, the alleged victims of the abuse should support the policy of sanctions.

7. Arguments for sanctions should be persuasive enough that support for the policy is widespread, even if the sanctions are imposed unilaterally or by a small group of nations.[25]

Although this article looks at sanctions from a moralistic viewpoint, the essence of what would make sanctions more effective than they generally are now, is contained within the seven criteria.

FINDINGS

Sanctions can backfire on the country or international body that imposes them. When sanctions are bluntly applied to a target country, the will of the people can become hardened towards the country that is trying to hurt them. Factor in a country where the government controls the press and a well

planned propaganda campaign against the perceived aggressors, and as long as the government can provide at least a minimal existence for its citizens, sanctions will prove to be ineffective. Iraq is a perfect case in point.

The target in Iraq is not the people, it is the ruling party and the President of the country. The people are suffering, yet the President is still in total control of the country, and still lives a lavish lifestyle in a number of palaces. The propaganda campaign is well orchestrated and the U.S. is seen as the bad guy. People march in the street protesting the sanctions, showing their support of Saddam and do not appear to have any inclination to rise up and eject him from power. When dealing with a one-party government or a dictator, sanctions will usually be less than effective.

When sanctions have seemed to be effective they had some common traits. As in the South Africa case, the imposition was imposed by a multi-national body that enjoys international legitimacy, had the support of the victims of the targeted regime's injustice, were selectively targeted against the rulers, not the people, were given a long time to work, enjoyed widespread multi-national support amongst the target's trading partners, and the goal was simply stated so that all sides clearly understood what was required to end the sanctions.

Contrast the S. Africa case to the Iranian sanctions and the differences are clear.

In the Iran case, the U.S. is going it alone, the objectives are poorly defined and almost impossible to measure, there is no widespread support amongst Iran's trading partners, and there is little precision in the targeting of the sanctions. The same case can be made in the Cuban situation. On the surface, it appears that the U.S. employs sanctions in many cases without clearly thinking them through, fails to define clear and obtainable objectives, and the foreign policy objectives that the sanctions should be capable of producing are apparently unduly influenced by political considerations and actors that dilute or obviate the end result.

What does the future of economic sanctions hold?, Will these type of sanctions have any value as an instrument of national power as the world inexorably moves into the information age?

THE FUTURE OF ECONOMIC SANCTIONS

Many civilian and military scholars tout the coming information age and how it will revolutionize warfare. There are numerous examples that the information age is already here, and the pace of change is getting faster every day. Computers and microchips are just as much a part of everyday life today as the horse used to be one hundred years ago. Just as militaries around the world were slow to adopt and adapt to the

technological changes brought about by the internal combustion engine, policy makers around the world are slow to recognize how the information age will change the nature of economic warfare. The ability of economic sanctions to change the behavior of a targeted nation is in serious jeopardy.

Economic warfare is about money, and the future of economic sanctions will be all about money, or the denial of access to money. As the entire world gets connected to the world-wide web, financial centers become inexorably connected together, multi-national corporations become global in size and nature, and money moves at the speed of light around the globe, there will be almost no way to put sanctions in-place that will have any meaningful effect.

W. Wriston, former Chief, Executive Officer and Chairman of Citibank, is credited with pushing banking into the digital world. In an article published in Wired magazine, Mr. Wriston discusses the future of money and offers some insights that are useful to the topic under discussion. In the 1970s, about $50 million was traded a day on the world-wide foreign currency markets, presently that figure has grown to $1 trillion and is still increasing.[26] Increasingly, money and the movement of money is becoming the purview of giant corporations. Their huge cash flows, and operations around the globe will eventually swamp regulated exchanges. As these corporations become more

powerful, and their operations have an effect in more countries around the world, the attempt to impose sanctions against a single country will become meaningless without the cooperation of these corporations. In effect, dealing with them will be akin to dealing with the United Nations with their varied agendas and viewpoints. Only in the most egregious instances of wrongdoing, will a majority of these corporations agree to put the interests of their businesses aside in the pursuit of international political goals.

As the flow of money around the globe grows, the number of international banking centers grows as well. What used to be a centrally controlled process, is becoming fragmented. London used to be the primary clearing house for international currency transactions, yet their primacy is being challenged by other actors that see the opportunity to profit from this business. Recent proposals by the state of Wyoming to establish an international bank with strict privacy laws, similar to Switzerland's, is a case in point. Small countries like the Grand Caymans have established banks that are convenient and secure places to move money to. As more and more of these banks become available to the nations of the world, any attempt to freeze a country's assets will be unsuccessful, or marginally effective at best. The net is too big, there are too many places to hide money, and there are too many privacy and secrecy

laws to overcome. Computer technology, and the size of the network will make this economic weapon obsolete.

Other recent events in the world of economics suggests ways that could be effective in attempting to coerce a nation into acting as desired. For instance, recent events in Asia point out the vulnerability of a nation's currency. In many ways money is fast becoming a center of gravity, possibly a strategic one. Dr. Leif Rosenberger, Professor of Economics at the U.S. Army War College, postulates:

> When national economic discipline slips, the result is financial chaos and threats to U.S. and global economic security. The Army After Next (and other future services), must face the stark reality that future threats to U.S. national security and international stability will be increasingly financial in nature.[27]

As noted before, economics is all about money, and money or currency could be vulnerable to attack. If indeed, money is a center of gravity, then the question arises, how best to attack it, or at least, threaten to attack it, as a move away from the bargaining table.

Currency traders look for weaknesses or strengths of a particular currency in relation to another one. It is a very complicated and quick paced business. If a consortium of banks and countries attacked a particular country's currency on the open market, for the sole purpose of changing a country's bargaining position, it would clearly be seen as a form of

economic warfare, especially if done publicly. In this hypothetical case, the target would be much more than the government. Every individual in the country could be effected. But would it be effective?

Cuba proved that there are ways to ride out economic warfare by keeping central control of prices and keeping those prices in local currency. Other countries could and would learn the same lesson as a weapon to combat this type of warfare. Countries that are able to locally produce basic necessities to maintain the population's basic subsistence needs would not be so vulnerable to this type of warfare; alternatively, countries that are required to import the majority of necessities would be vulnerable to a currency attack. The bigger question lies in the will of the sanctioners and their allies to press this type of attack on another country. The effects on a vulnerable country could be devastating.

Moreover, this type of economic warfare would be against the seven criteria proposed by Mr. Himes. It is not too hard to imagine the outrage that would be heaped on a country or consortium of companies that promulgated this type of attack. This weapon would be the opposite of a surgical strike. The bluntness of the sword would be very evident to the entire world. Although not yet illegal, it is easy to imagine the call for making this economic weapon of warfare illegal, similar to

chemical and biological weapons, if it was ever used, and could be proven.

CONCLUSION

Economic warfare has existed for centuries, and used to some success in the early days of total blockades and sieges to cities and towns. Modern communications, trading pacts, and the proliferation in the number of nation-states have diluted the effectiveness of economic warfare. Modern use of sanctions has continued to prove less and less effective as a tool to change the bargaining position of a targeted county. In this regard, history does show some examples of success. South Africa's eventual renunciation of the policy of Apartheid is one notable and recent example. On the other hand, success in Cuba and Iran have proven to be elusive. South African sanctions were effective because of the wide spread support of the nations of the world and the people within the country, the target of the sanctions was the rulers, not the people, the goals of the sanctions were clearly understood, and the effects were given time to work. Cuba and Iran have been able to withstand the imposition of sanctions because of the lack of world-wide support for this U.S. policy, the people in the country are not behind the effort, and although the goals may appear clear to the U.S. policy makers, they are not clear and easily measurable.

The future of economic warfare is inextricably linked to money, and specifically, a nation's currency. The proliferation of computers, high speed communications, and growing currency trading markets can make a country's currency vulnerable to attack. A concerted attack against a country's currency by governments and corporations could have devastating effects on the target, and in many cases, quickly lead to capitulation. The means are available to conduct this type of attack, but the will to press this type of attack would be lacking in the vast majority of situations that could be foreseen.

Although economic sanctions appear to be the choice of policy makers around the world, especially the U.S., their effectiveness is proving elusive in most cases. The future effectiveness of sanctions will continue to diminish as the global economy becomes increasingly linked together. Economic sanctions are like an endangered species that eventually will die out. It is not too hard to imagine when the informational part of the four instruments of national power will achieve dominance, and the economic weapon will be subsumed by information. In the end we may go back to having only three instruments of national power, where information will be dominant, and military and political options will play a diminished role in the conduct of foreign policy.

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ENDNOTES

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